

Message Text

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PAGE 01 COLOMB 00554 121000Z

43

ACTION EB-07

INFO OCT-01 NEA-10 IO-11 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

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SUBJ: SRI LANKA: CONCESSIONS FOR MTN TROPICAL PRODUCT
NEGOTIATIONS

REF: STATE 287116

1. SUMMARY: WE HAVE REVIEWED GOVERNMENT OF SRI LANKA (GSL) EXPORT CONTROLS AND IMPORT TARIFFS AND CONTROLS FOR POSSIBLE CONCESSIONS USG MIGHT NEGOTIATE IN RETURN FORTROPICAL PRODUCT (TP) CONCESSIONS. BASICALLY WE CONCLUDE NO SIGNIFICANT GSL CONCESSIONS PROBABLE OR NEGOTIABLE IF GSL SAW THEM AS RESULTING IN FOREIGN EXCHANGE LOSS. BASIC GSL TRADE POLICY LAST FIVE YEARS HAS BEEN TO RESTRICT SEVERELY EVEN ESSENTIAL IMPORTS AND TO MAXIMIZE EXPORTS OF BOTH TRADITIONAL (TEA, RUBBER, COCONUT) AND NON-TRADITIONAL PRODUCTS. DESPITE THIS APPROACH GSL REMAINS ESPECIALLY HARD-HIT MSA DEVELOPING NATION, FACING ANNUAL UNFINANCED FOREIGN EXCHANGE GAP OF 50 - 100 MN US DOLAR. ONLY AREA WE PERCEIVE GSL CONCESSIONS

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PAGE 02 COLOMB 00554 121000Z

MIGHT BE POSSIBLE WOULD BE IN FACILITATION OF TRADE

FOR AMERICAN FIRMS REPRESENTED HERE AND IN FIELD OF INVESTMENT. FROM WASHINGTON AGENCIES REVIEW OF RECOMMENDED CONCESSIONS FROM SIMILAR MSA DEVELOPING COUNTRIES, IT WOULD BE HELPFUL TO HAVE LIST OF RECOMMENDED SPECIFIC CONCESSIONS TO CHECK AGAINST SRI LANKA TRADE REQUIREMENTS AND CONDITIONS.END SUMMARY.

2. DURING PAST FIVE YEARS, BASIC GSL TRADE POLICY HAS BEEN TO CUT BACK CONTINUALLY ON IMPORTS INCLUDING NORMALLY ESSENTIAL CAPITAL EQUIPMENT, SPARE PARTS AND RAW MATERIALS. RESULT HAS BEEN NEARLY ZERO REAL GROWTH. POLICY IS EVIDENCED BY IMF FIGURES SHOWING IMPORT VOLUME INDEX -- BASED ON 1961-70 EQUALS 100 -- AT 54 IN 1974 (IMPORT VALUE INDEX AT 190). DURING SAME PERIOD EXPORT VOLUME INDEX FELL TO 86 (VALUE: 165).

3. CONCERNING EXPORTS, MAJOR ITEMS, TEA AND RUBBER, HAVE NO RESTRICTIONS ON EXPORTS. MAJOR PORTION OF RUBBER EXPORTS ARE LOCKED INTO BARTER SALES TO PRC UNDER ANNUALLY RENEGOTIATED RICE-RUBBER AGREEMENT BUT THIS IS FOR SMOKED SHEET ONLY FOR WHICH THERE IS LITTLE MARKET ELSEWHERE. DURING LAST SEVERAL YEARS COPRA AND COCONUT OIL EXPORTS HAVE BEEN BANNED PERIODICALLY BUT THIS DONE SOLELY TO MEET DOMESTIC DEMAND FOR FRESH COCONUT AS FOODSTUFF. OF NON-TRADITIONAL EXPORTS, FORTY-NINE ITEMS ARE CURRENTLY UNDER EXPORT CONTROL, THESE INCLUDE SPICES AND OTHER FOOD STUFFS, FISHERY PRODUCTS, MINERALS, MEDICINAL PLANT PRODUCTS, PRECIOUS AND SEMI PRECIOUS STONES, RUBBER, SYNTHETIC TEXTILES, TIMBER AND SOME ESSENTIAL OILS. CERTAIN OF THESE PRODUCTS ARE SUBJECT TO AVERAGE PRICE AND FLOOR PRICE SCHEMES BUT THESE ARE BASED ON WORLD PRICES AND ARE DESIGNED TO PROTECT AGAINST WORLD PRICE FLUCTUATIONS RATHER THAN TO INFLUENCE PRICE CHANGES.

4. ALL IMPORTS ARE RIGIDLY CONTROLLED IN TWO WAYS. FIRST, ANNUAL BUT REPEATEDLY ADJUSTED GSL FOREIGN EXCHANGE BUDGET COMPLETELY CONTROLS ALLOCATIONS OF FOREIGN EXCHANGE TO PUBLIC AND PRIVATE SECTOR, EXCEPT FOR SMALL PORTION IN FORM OF CONVERTIBLE ACCOUNTS AVAILABLE FROM LIMITED OFFICIAL USE

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PAGE 03 COLOMB 00554 121000Z

CERTAIN KINDS OF EXPORT EARNINGS. SECOND METHOD IS THROUGH INDIVIDUAL IMPORTING LICENSES WHICH MUST BE OBTAINED FOR ALL IMPORTS. TO OUR BEST KNOWLEDGE THESE SYSTEMS ARE ENTIRELY NON-DISCRIMINATORY. ADJUSTMENTS IN THEM FOR ADVANTAGE OF US EXPORTERS WOULD NOT RPT NOT APPEAR TO BE NEGOTIABLE.

5. ONLY AREAS WHERE WE SEE POSSIBILITY FOR NEGOTIATION

OF RECIPROCALLY VALUED CONCESSIONS WOULD BE IN AREAS
OF A) FACILITATING OPERATIONS OF AMERICAN
BUSINESSES IN SRI LANKA AND B) AMERICAN INVESTMENT.
WITH RESPECT TO OPERATIONS IN SRI LANKA OF AGENCIES AND
REPRESENTATIVES OF AMERICAN FIRMS WITH EXISTING OR
POTENTIAL EXPORTS, THESE FIRMS OFTEN HAVE DIFFICULTY
DOING BUSINESS EFFECTIVELY BECAUSE OF STRONG CONTROLS
OVER IMPORTS AND BECAUSE OF GOVT BUREAUCRACY AND
REGULATIONS SIMPLY MAKE DOING BUSINESS VERY DIFFICULT.
POSSIBLY SOME SORT OF GENERAL UNDERSTANDING COULD BE
PROPOSED IMPROVING OPERATING CONDITIONS FOR SUCH US
FIRMS. THIS IN TURN SHOULD ALLOW THEM TO EXPAND
THEIR AMERICAN SALES IN SRI LANKA.

6. SECOND POSSIBILITY MIGHT RELATE TO INVESTMENT
OPPORTUNITIES FOR AMERICAN FIRMS. THESE COULD IMPROVE
IF FOREIGN INVESTMENT GUARANTEE LAW NOW PROPOSED
BEFORE GSL CABINET IS EVENTUALLY ENACTED. AGAIN POSSIBLE
SUGGESTED APPROACH WOULD BE TO NEGOTIATE WITH GSL
UNDERSTANDING FOR FACILITATION OF AGREEMENT AND
ADMINISTRATIVE ARRANGEMENTS WITH INDIVIDUAL AMERICAN
INVESTORS.

7. GIVEN PAUCITY OF APPARENT POSSIBLE CONCESSIONS
WHICH COULD BE READILY NEGOTIATED FOR TROPICAL PRODUCT
CONCESSIONS, WE REQUEST LIST OF SUGGESTED CONCESSIONS
FROM POSTS IN OTHER MSA LDCS FACED WITH SERIOUS CHRONIC
FOREIGN EXCHANGE SHORTAGE. THESE WOULD BE EXAMINED
AGAINST LOCAL TRADE CONDITIONS FOR THEIR POTENTIAL.
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